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*Presentation to Standard & Poor's*



**State of Maine**

**John Elias Baldacci – Governor**

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**State Treasurer Dale McCormick**

**Commissioner Rebecca M. Wyke, Administrative & Financial Services**

**May 19, 2004**

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*Presentation to Fitch Rating*



**State of Maine**

**John Elias Baldacci – Governor**

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**May 18, 2004**

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*Presentation to Moody's Investors Service*



**State of Maine**

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**May 18, 2004**

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## Participants

**Dale McCormick**  
*State Treasurer*

**Rebecca M. Wyke**  
*Commissioner,  
Department of Administrative  
& Financial Services*

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## Presentation Topics

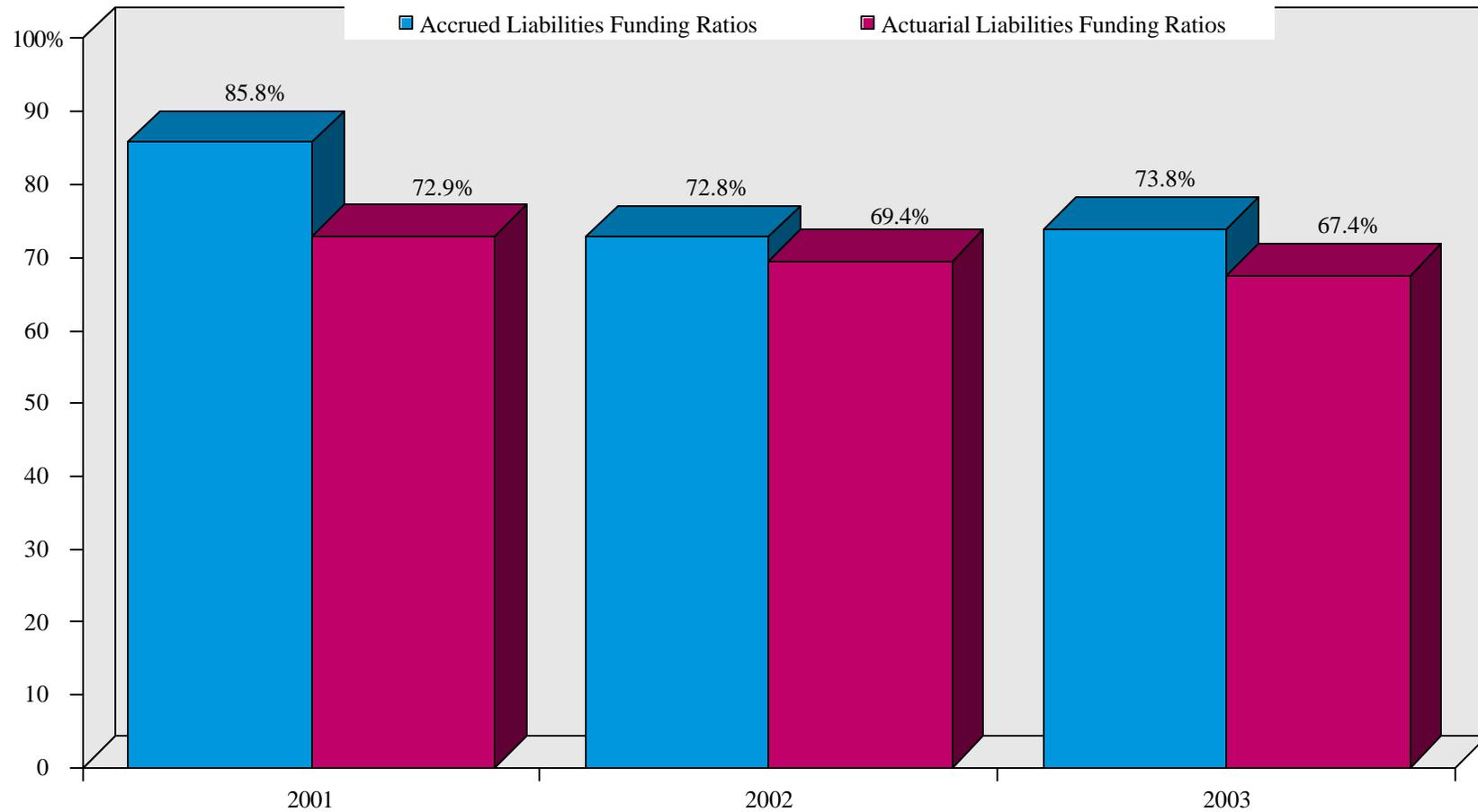
	<u>Tab</u>
Budget Overview.....	A
Proposed Initiatives.....	B
Finance.....	C
Economic Development.....	D
Debt Management.....	E
Comparison of Selected States.....	F
Summary.....	G

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## Executive Summary

- ✍ Maine's General Fund cash position has steadily improved over the last two fiscal years.
- ✍ Maine has reformed its Medicaid accounting and is now able to identify cost overruns quickly — minimizing problems and allowing for quick resolutions.
- ✍ The Baldacci Administration has presented 7 budgets and addressed every fiscal issue without raising taxes.
- ✍ Maine continues to develop, implement and institutionalize financial processes and controls.
- ✍ Maine's conservative debt management compares favorably to triple-A rated states.
- ✍ Economic diversity and widespread economic development strengthen Maine's position.

## The Unfunded Pension Liability has Stabilized



Source: Maine State Retirement System

✍ While the Accrued Liabilities went up, the Actuarial Liabilities Funding Ratio went down.

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# Maine is Controlling Healthcare Costs

## ✍ Short Term

— \$200 million cut from healthcare spending in FY05.

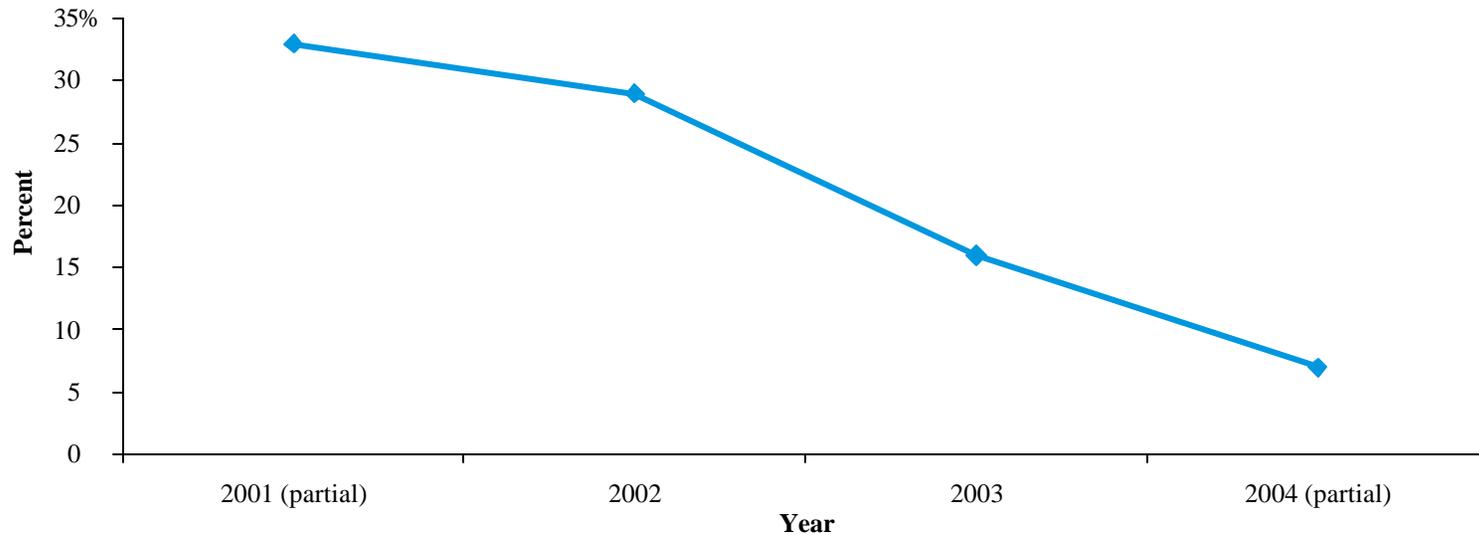
## ✍ Long Term

— \$70 million of those cuts are on-going cuts that will reduce gap in FY06-07.

### 1. Better Management.

- Challenge: 40% of Medicaid costs for childless adults is mental health.
- Solution: Centralizes eligibility and enrollment; standardizes rates and ensures that people are utilizing the right services — currently it's ONE SIZE FITS ALL.

## Average Rate Increase in the Maine Small Group Market



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*Source: Maine Bureau of Insurance*

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## Maine is Controlling Healthcare Costs (cont'd)

### 2. Better System Design.

- Dirigo Health covers the uninsured thereby relieving premium payers of the hidden tax of bad debt and charity care. Dirigo in future years is financed by an assessment on insurance revenues that can only be assessed IF and when savings in cost growth are documented. Dirigo Health directly links access and cost containment.
- Dirigo Health will bring down Hospital Costs.
  - Harvard Study on Hospital Costs due in June 2004
  - Recommendations to the Legislature in November 2004
- Dirigo Health will lower Prescription Drug Costs.
  - Preferred Drug List
  - Mail Order: Medicaid, Drugs for Maine's Elderly, Maine Rx Plus
- Dirigo Health's State Health Plan will allocate resources to guide Certificates of Need ("CON").
- Maine Quality Forum is investing \$1 million per year to promote rapid deployment of best practices and to provide consumers on line tools to make good healthcare decisions.

### 3. Benefit and rate limits.

- Dirigo can lower Insurance rates.
  - If health insurance administrative costs are greater than 22% of premiums, then the Superintendent can review rates in the small group market
  - Voluntary price posting by hospitals and providers
  - Hospitals are holding price increases at 3.5%

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## Maine is Controlling Medicaid Costs

- ✍ Maine has reformed its Medicaid accounting and is now able to identify cost overruns in a matter of months—not years—minimizing problems and allowing for quick resolutions.
- ✍ MaineCare Basic is the new benefit package for Medicaid eligible adults.
  - Limits some services for childless adults (2 hospital visits and 5 outpatient visits per year without prior approval).
  - Eliminates retroactive eligibility for childless adults.
  - Doesn't eliminate anyone who is eligible.

### Savings included in the FY05 Supplemental Budget

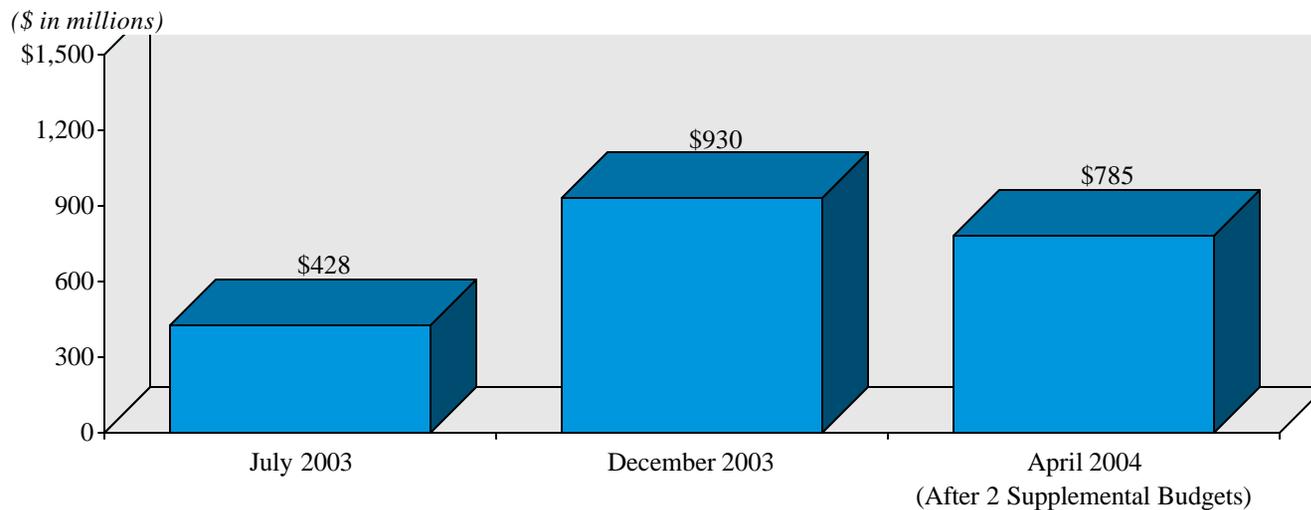
Action	Savings in Millions
Acute Care	\$ 12.95
Long Term Care	7.40
Behavioral and Developmental Services	8.40
Other	20.30

- ✍ Tax and Match
  - Tax of 2.23% on net revenues of all hospitals (approximately \$49.8 million in revenue).
    - Hospitals as a group will lose \$5.5M, which is offset by the Critical Care Hospitals gain of \$6M
    - \$20M goes to fill the FY05 Medicaid hole

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## The FY05 Supplemental Budget Addresses the FY06-07 Structural Gap

- ✍ The original projected structural gap for FY06-07 was \$428 million.
- ✍ With the December 2003 and March 2004 revenue rejections, the Maine State Retirement System actuarial re-evaluation, and the MaineCare shortfall, the FY06-07 structural gap grew to \$930 million.
- ✍ The current projected structural gap for the FY06-07 biennium after the passage of the FY05 Supplemental Budget is \$785 million – a 35% reduction from the FY04-05 gap.



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## Structural Gap can be Reduced by Electing Certain Policy Decisions

### ✍ Policy Choices:

- Extend the unfunded actuarial liability of the Retirement System to Constitutional Limit - \$177.7 million.
- Continue nonconformity with federal tax cuts in select areas - \$10.6 million.
- Revise projected health insurance costs to reflect current experience - \$23.5 million.
- Delay new legislative initiatives - \$11.8 million.

Tax Conformity Issues for Next Biennium	FY06/07 Biennial Savings
Expanded Dependent Care Credit Benefits	\$ 516,660
Increase in Standard Deduction for Joint Filers	9,793,788
Expanded Student Loan Interest Deduction	<u>317,580</u>
<b>Subtotal</b>	<b>\$ 10,628,028</b>
Decouple from Estate Tax Changes*	<u>64,957,000</u>
<b>Total General Fund Impact</b>	<b><u>\$ 75,585,028</u></b>

\* Signifies part of recently enacted supplemental budget, so its impact on the FY06-07 structural gap has already been reflected.

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## Maine has Many Budget Balancing Options Still Available

### Tools Available Last Year

- ✍ Lengthening of debt term
  - Delay amortization
  - Extend final maturity
- ✍ Change from level principal to level debt service
- ✍ Tax increases
- ✍ Restructure outstanding debt
- ✍ Pension obligation bonds
- ✍ Tobacco bonds
- ✍ Pure deficit financing (fiscal recovery notes)
- ✍ UAAL capacity

### Tools Available Now

- ✍ Lengthening of debt term
  - Delay amortization
  - Extend final maturity
- ✍ Change from level principal to level debt service
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- ✍ Restructure outstanding debt
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## **MMA Tax Cap Alternative**

### **MMA Proposal**

- ✍ The MMA proposal to increase State funding for General Purpose Aid to Education to 55% in the first year of implementation would require a \$245 million annual increase in education spending at the State level, with no guarantee of local property tax relief for Maine citizens.

### **LD 1924 Essential Programs and Services Model**

- ✍ LD 1924 passed by the Legislature last month was signed into law by the Governor last week. LD 1924 addresses the important issues of education funding and property tax relief in 5 ways:
  1. It ramps up the State's share of education funding to 55% over 5 years.
  2. It ramps down the local share of education funding, resulting in a 15% reduction in local spending for education by 2010.
  3. It caps property taxes that need to be raised for education.
    - In FY 2006, as the State share begins to increase, no town will be required to raise more than \$9 per \$1000 valuation for education
    - By 2010, when the State share hits 55%, no town will be required to raise more than \$8 per \$1000 valuation for education
  4. The performance of towns in lowering property taxes based on extra State education funding will be measured and reported on each year by a Municipal Budget Analysis Committee, appointed by the Governor.
  5. Finally, LD 1924 places controls on special education and transportation costs. By 2010, this change alone will save the State \$229 million and local property taxpayers \$237 million.
- ✍ LD 1924 represents a responsible approach to increased education funding and ensures the property tax relief missing from the MMA proposal.

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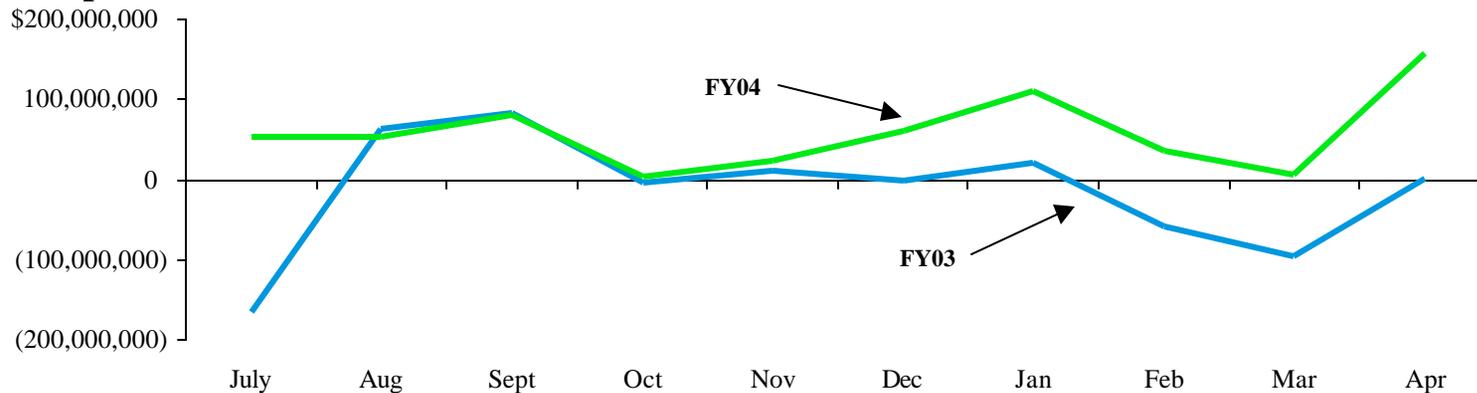
## Untapped Reserve Funds Will Grow in FY04

- ✍ Budget Stabilization Fund, General Fund Reserve for Working Capital, and Fund for a Healthy Maine have not been tapped in the balancing of FY04 and FY05 budgets.
- ✍ Budget Stabilization Fund: \$10.6 million.
- ✍ General Fund Reserve for Working Capital: \$5.5 million.
- ✍ Distribution of Unappropriated Surplus occurs through Statutory Transfers at FY04 year end:
  - 32% to Budget Stabilization Fund (capped at 10% of previous year's GF revenue).
  - 32% to the Unfunded Accrued Actuarial Liability of the Retirement System.
  - 16% to General Fund Reserve for Working Capital.
  - \$1 million to the Finance Authority of Maine for the Loan Insurance Reserve.
  - Up to \$350,000 to the Governor's contingent account.
  - Up to \$4.5 million at FY04 year-end follows budgetarily established cascade. Major priorities are:
    - Student Financial Assistance
    - University of Maine System and Maine Community College System
    - Maine State Library and Maine Public Broadcasting
    - Conservation

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## Cash is Improving because Cuts in the FY04-05 Budget Consist Mostly of On-Going Expenditure Reductions

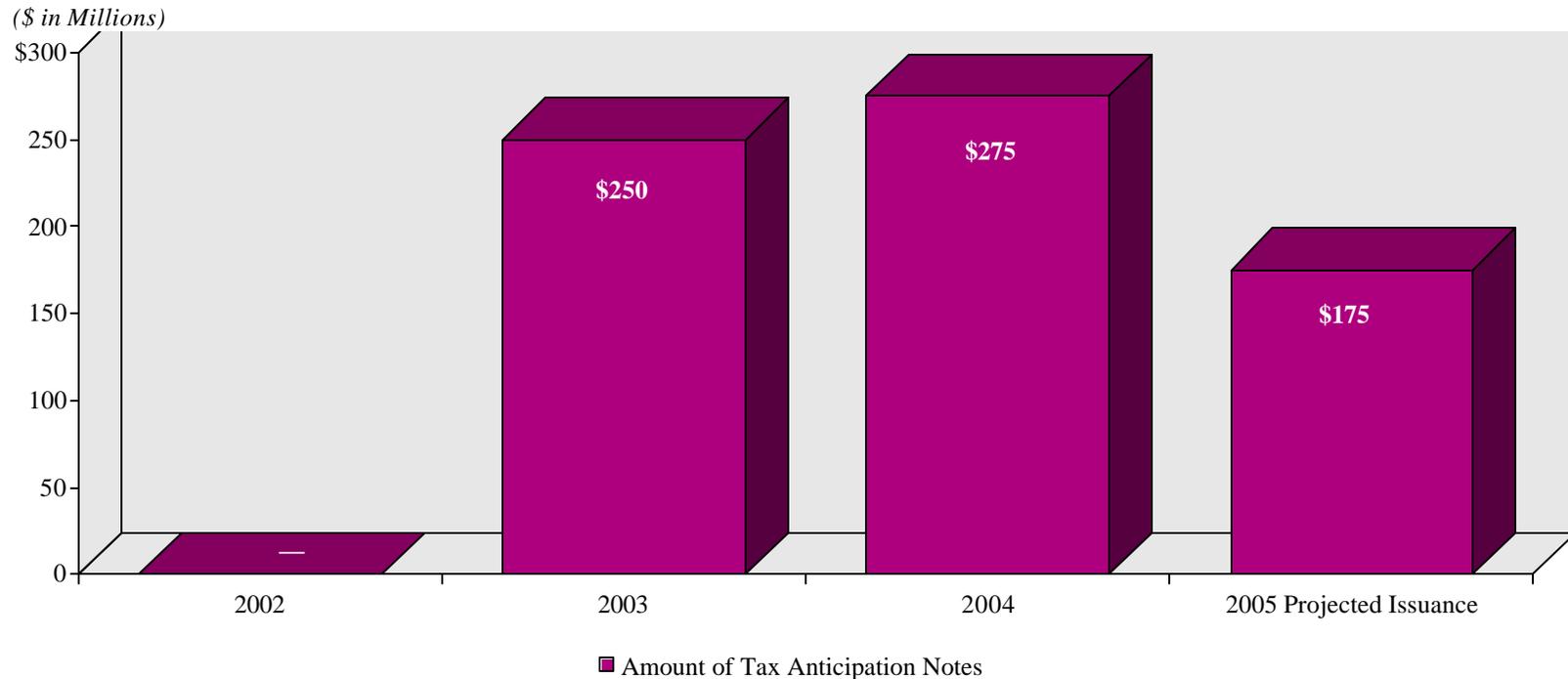
### End of Month General Fund Cash Balance Comparison of FY03 to FY04



- ✍ General Fund cash balances are steadily improving:
  - \$230.6 million = original FY03 projected General Fund ending negative balance.
  - \$136.4 million = actual FY03 General Fund ending negative balance.
  - \$95 million = current projected FY04 ending negative balance.
- ✍ Cuts in the FY04-05 Budget consist mostly of on-going expenditure reductions, along with taking advantage of savings that are one-time occurrences.
  - The recently enacted supplemental budget, along with previous FY04-05 budgets, will reduce the structural gap from \$1.2 billion last biennium to \$785 million for the FY06-07 biennium (a 35% reduction).

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## Maine is Reducing Its Reliance on TANs



Source: State of Maine, Office of the Treasurer, State Controller

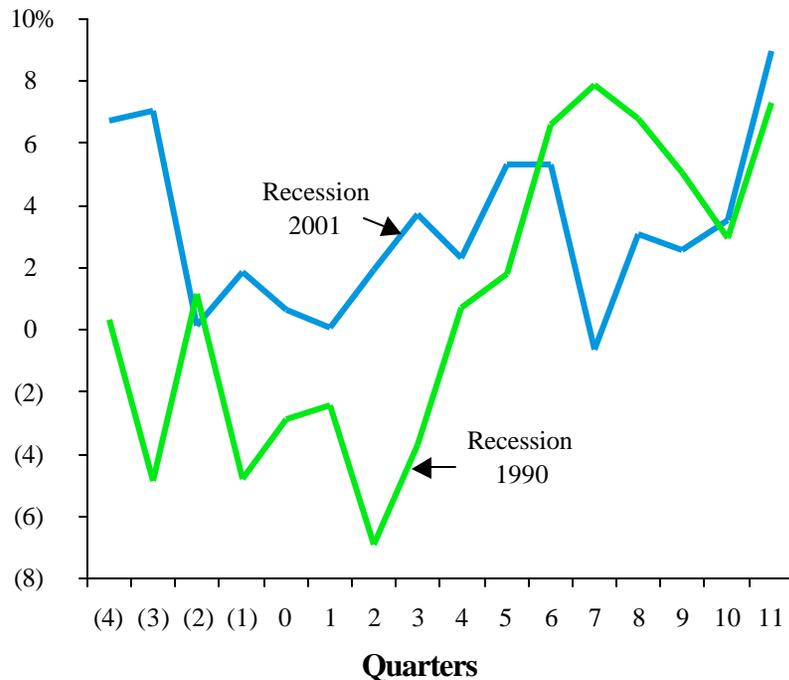
- ✍ The State will experience its second consecutive year with an improved year-end General Fund balance.
- ✍ The State's improving cash position is reducing its reliance on TANs.

# Maine Economy has Weathered this Recession Better than the Last

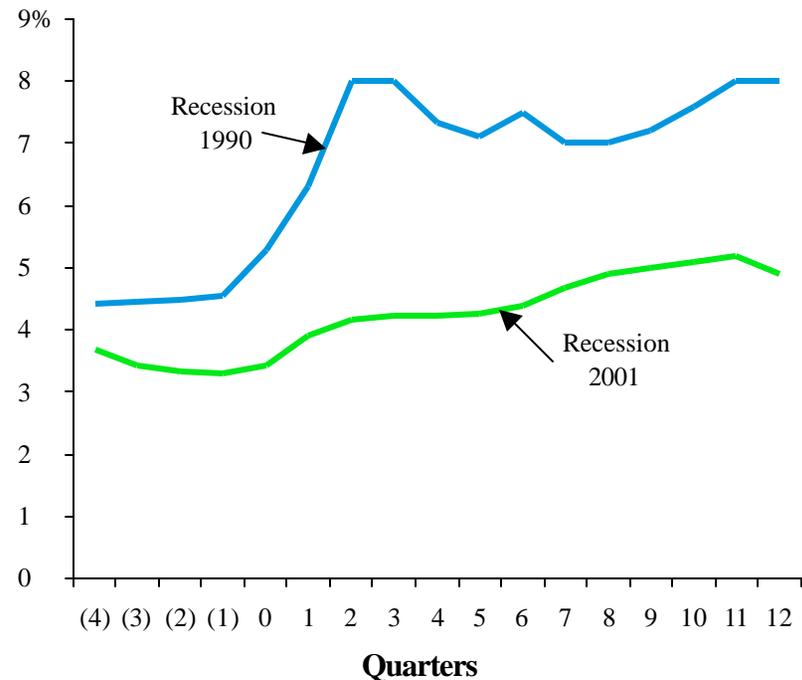
- ✎ Taxable sales have averaged 3% growth since the beginning of this recession, compared with 1% growth during the last recession.
- ✎ Taxable sales growth has averaged 9% during the 6 month period beginning October 1, 2003; the strongest 6 month period since the middle of 1999.
- ✎ The Maine unemployment rate has stayed well below the peak of the previous recession.
- ✎ Withholding revenue grew by 6.5% in the first quarter of 2004.

## Quarterly Total Taxable Sales

Year-Over-Year % Change



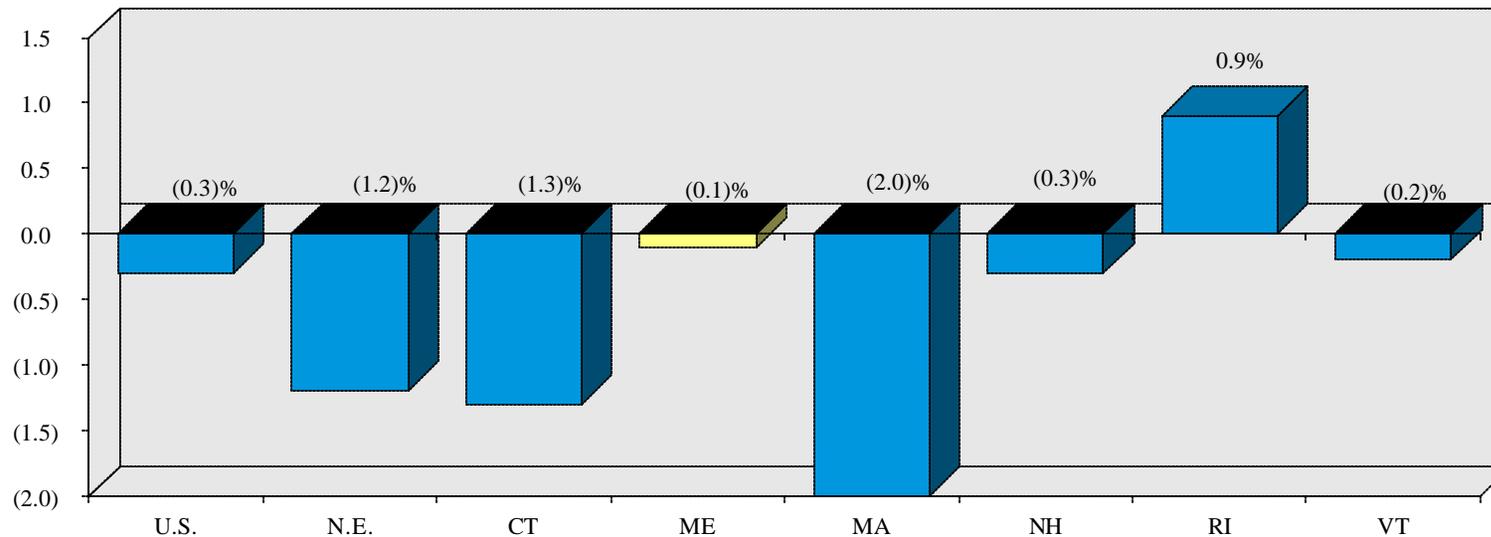
## Maine Unemployment Rate



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## 2002 – 2003 Payroll Employment Growth — Maine Ranked 20<sup>th</sup> in U.S., 2<sup>nd</sup> in New England

### 2002–2003 Payroll Employment Growth

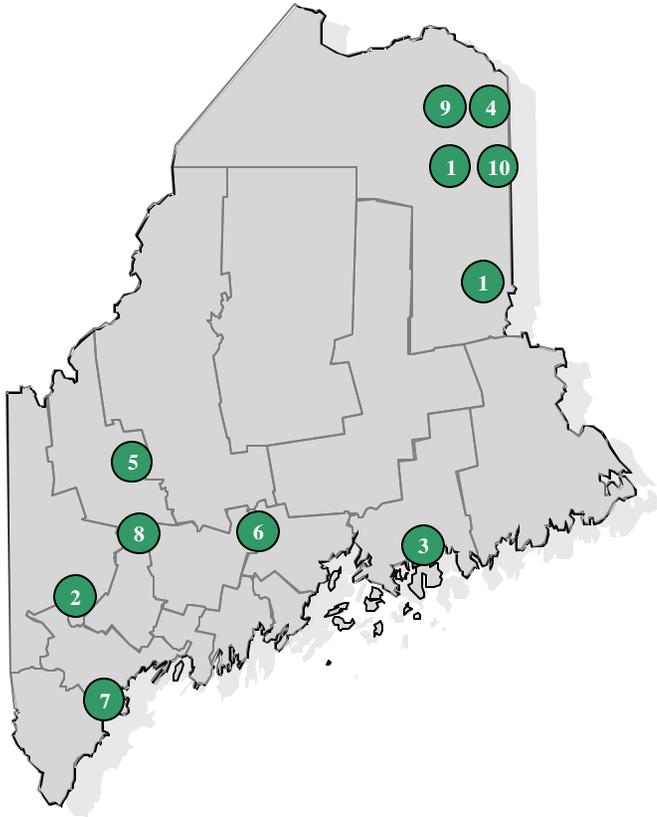


Source: Maine Department of Labor.

- ✍ The March 2004 unemployment rate in Maine was 4.9%. March's National rate was 5.7% and New England was 4.9%.
- ✍ Portland metro-area had the 18<sup>th</sup> lowest unemployment rate in the country as of March 2004.

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## Businesses Invested \$146.3 million in Maine in 2003



✍ Companies can locate anywhere in Maine because of uniform availability of people and infrastructure.

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- 1 Burrelle's, a press clipping company in Houlton and Presque Isle, added 21 new jobs.**

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  - 2 CCS Companies in Oxford added 25 new jobs in their credit collections center.**

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  - 3 Columbia Air Services retained 15 jobs and invested \$500,000 in their Trenton facility where they provide aviation support services.**

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  - 4 DFAS is a defense accounting firm that added 100 new jobs in Limestone.**

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  - 5 ICT in Wilton added 85 new jobs to their telecommunications center.**

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  - 6 CPA Realty LLC in Waterville retained 16 jobs, added 6, and invested \$500,000 in their accounting services firm.**

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  - 7 The Gulf of Maine Research Institute invested \$9,000,000 and added 55 jobs in their Portland Marine Research center.**

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  - 8 International Paper in Jay retained 1,100 jobs and invested \$112,000,000 in their paper mill.**

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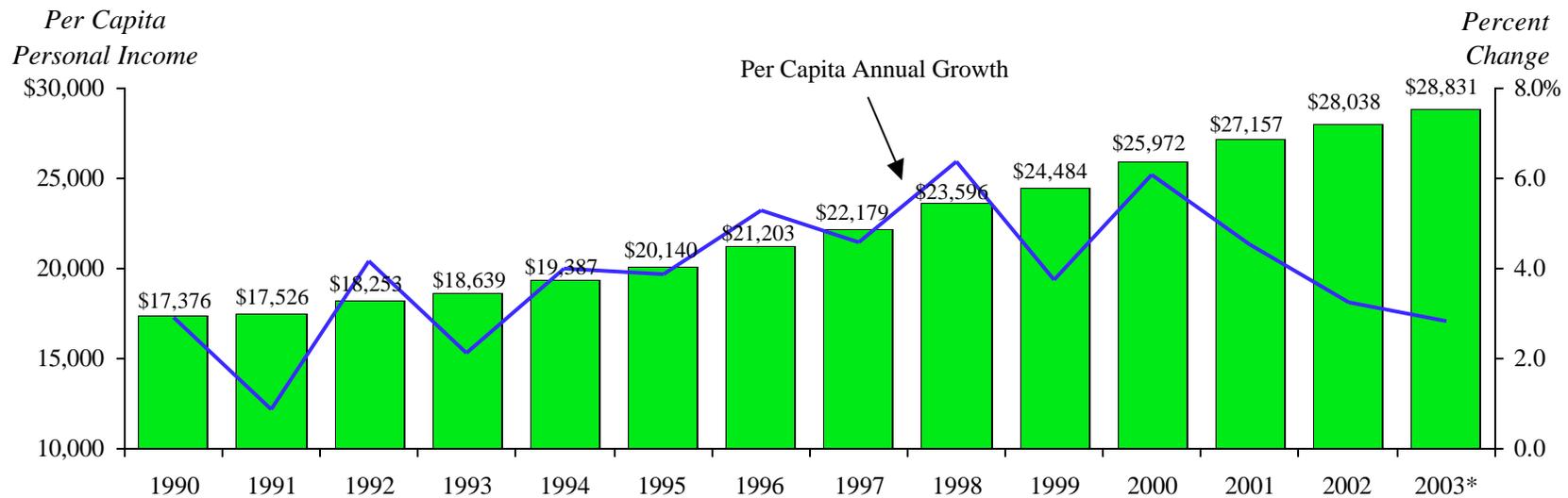
  - 9 RS Information Systems, a data backup center in Limestone, added 17 jobs.**

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  - 10 Smith & Wesson added 28 jobs and invested \$1,000,000 in their precision metals manufacturing facility in Houlton.**
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Source: *Maine State Treasurer.*

## Maine's Per Capita Personal Income Growth was 10<sup>th</sup> Highest in the U.S. in 2002 and 21<sup>st</sup> in 2003



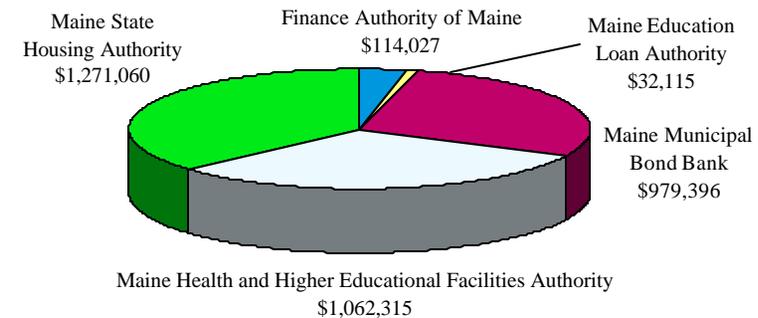
- ✍ Total personal income growth in 2002 was 3.7%, second in New England behind Rhode Island.
- ✍ Maine's per capita personal income growth was 21st in the nation (2.8%) and third in New England.
- ✍ Maine's per capita income ranking is 32<sup>nd</sup> in 2002, up from 36<sup>th</sup> in 1996.
- ✍ Since 1996, Maine's per capita income as a percentage of the national average has increased from 88% to 91% in 2002.
- ✍ Maine gained ground over the last few years because we did better than other states during the recession.

# The State's Prudent Use of the Moral Obligation Has Resulted in Positive Returns

- ✎ **Maine State Housing Authority:**
  - ✎ The bond resolution is rated higher than MO rating (Aa1/AA+).
  - ✎ MSHA bonds are overcollateralized with highly rated investments and high quality mortgage loans.
  - ✎ MO required by very old bond resolution that prohibits withdrawal of surpluses.
  - ✎ Strong cash flows make MO superfluous.
  
- ✎ **Maine Municipal Bond Bank:**
  - ✎ The Bond Bank general resolution is rated higher than MO rating (Aa1/AAA/AAA).
  - ✎ The SRF bond resolution is rated higher than MO rating (Aaa/AAA).
  
- ✎ **FAME:**
  - ✎ Cap on insurance reserve was increased from \$20 million to \$35 million in 2003.
  
- ✎ **MHHEFA:**
  - ✎ Has an intercept of state payments to borrowers under MO bonds.
  - ✎ Maintains additional reserves in addition to required MO reserves.

## Moral Obligation Bonds Outstanding of March 31, 2004

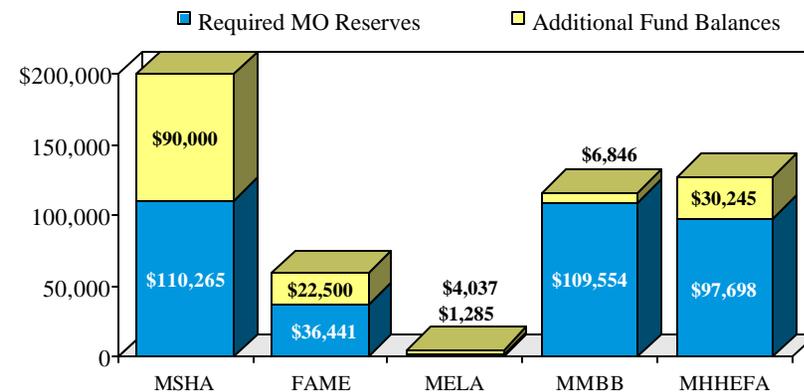
(\$ in thousands)



Note: Loring Development Authority has the moral obligation and no outstanding bonds.

## Moral Obligation Reserves Levels

(\$ in thousands)



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## Maine's Tax-Supported Debt is Carefully Managed

### Tax-Supported Debt Service as a Percentage of General Fund and Highway Fund Revenues

(\$ in thousands)



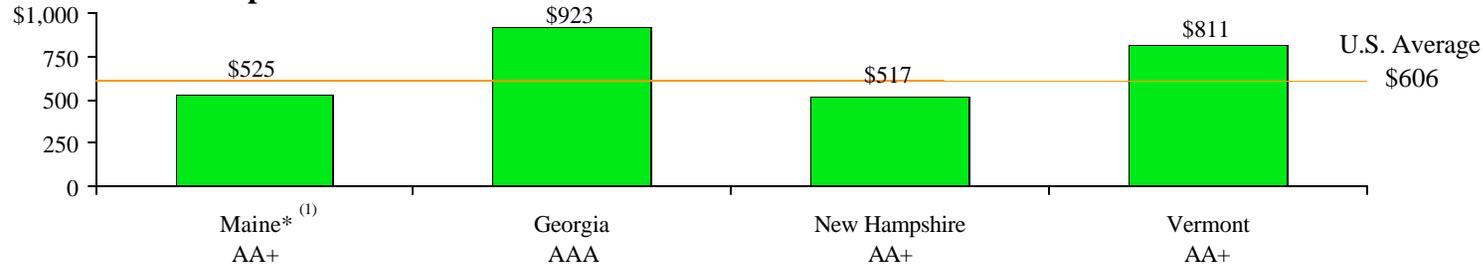
- ✍ Tax-Supported Debt is currently 3.91% of General Fund and Highway Fund Revenues.
- ✍ Since 2000, Maine has been using a new Debt Control Formula (non-Legislative) that limits annual tax-supported debt service to no more than 5% of General Fund and Highway Fund Revenues.
- ✍ Maine's Net Supported Debt Per Capita decreased for the fifth year in a row to \$525.

\* Projected

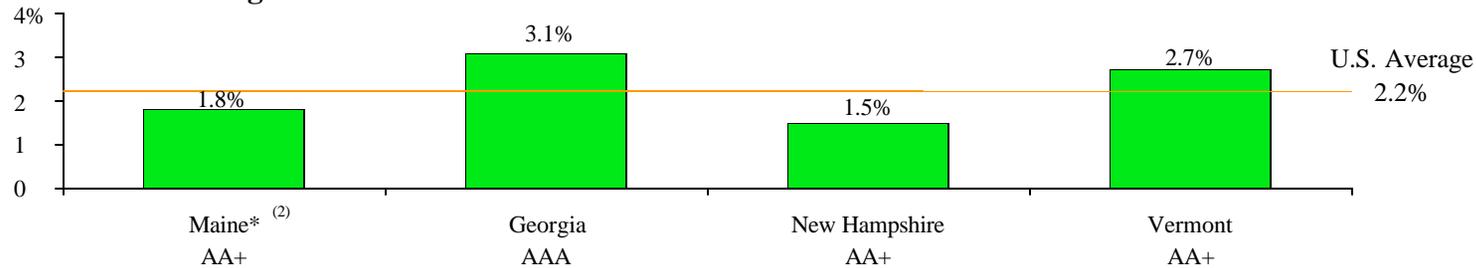
Source: State Budget Office

# Maine Compares Favorably With Selected States' Debt Ratios

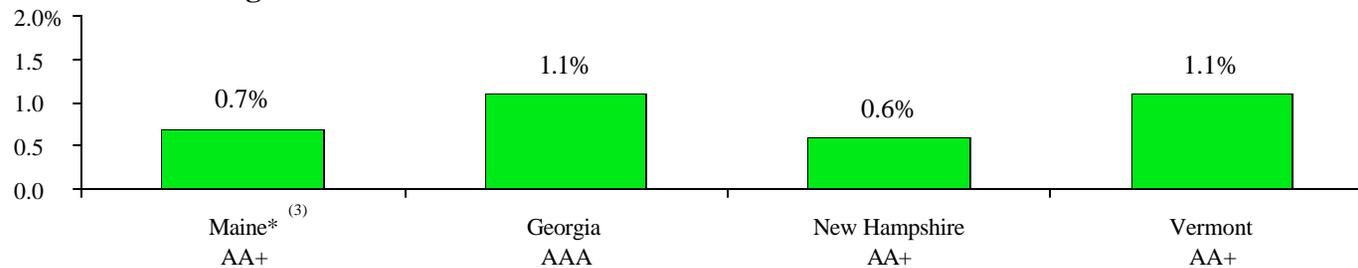
## 2002 Debt Per Capita



## Debt as a Percentage of 2002 Personal Income



## Debt as a Percentage of 2002 Estimated Full Value



\* Includes General Fund, Highway Fund and Maine Governmental Facilities Authority debt, and Certificates of Participation.

(1) Based on 2003 Population.

(2) Based on 2003 Personal Income.

(3) Based on 2004 Estimated Full Value.

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*Source: Maine State Treasury and Fitch Credit Reports.  
U.S. Average from 2003 Moody's Median's.*

# Maine Compares Favorably With Selected States' Debt Ratios

## Fitch Credit Reports

	Maine	Georgia	New Hampshire	Vermont
Rating	AA+	AAA	AA+	AA+
2001 Debt Per Capita (\$) <sup>(1)</sup>	525	923	517	811
Debt as a Percentage of 2001 Personal Income (%) <sup>(2)</sup>	1.8	3.1	1.5	2.7
Debt as a Percentage of 2001 Estimated Full Value (%)	0.7	1.1	0.6	1.1
Term of Debt	10	20	10 – 15	10 – 15
	Dated:	02/25/04	12/11/03	02/12/04

(1) Maine's figure based on 2002 populations.

(2) Maine's figure based on projected 2002 Personal Income.

## State of Maine as of 12/31/03

<b>General Obligation Debt</b>		2003 Population	1,305,728
General Purpose Debt	\$ 282,645,000	2003 Personal Income	\$ 37,606,000,000
Highway Fund Debt	60,575,000	2004 Estimated Full Value	\$ 104,219,950,000
Proposed New Issue*	130,275,000		

### Other Tax-Supported Debt

Certificates of Participation	16,585,000	Debt Per Capita (2003 Population)	\$ 525
Maine Governmental Facilities Authority	195,360,000	Debt as a Percentage of 2003 Personal Income	1.82%
		Debt as a Percentage of 2004 Estimated Full Value	0.66%

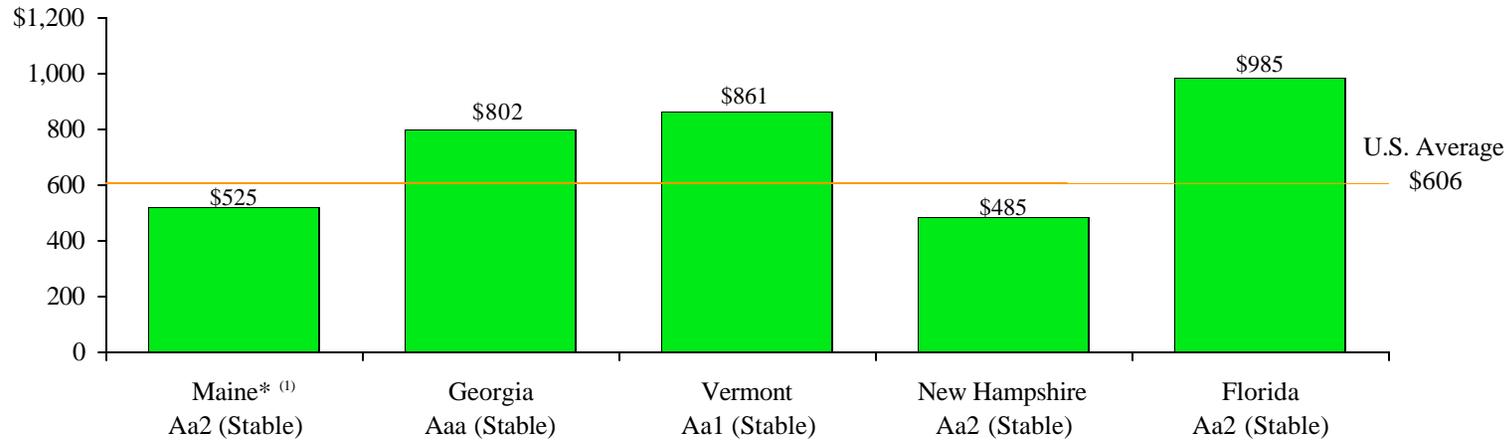
**Net Tax-Supported Debt** \$ 685,440,000

\* Preliminary, subject to change.

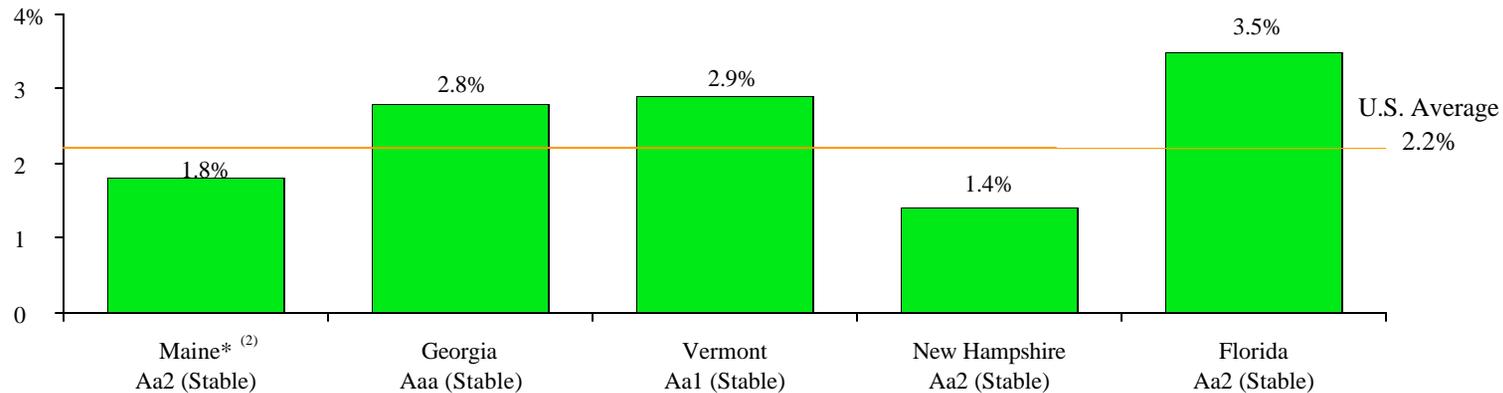
Source: Maine State Treasury, Official Statement, Bureau of Economic Analysis.

# Maine Compares Favorably With Selected States' Debt Ratios

**2002 Net Tax-Supported Debt per Capita**



**Net Tax-Supported Debt as a Percentage of 2002 Personal Income**



\* Includes General Fund, Highway Fund and Maine Governmental Facilities Authority debt, and Certificates of Participation.

(1) Based on 2003 population.

(2) Based on 2003 Personal Income.

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*Source: Maine State Treasury and 2003 Moody's Medians.*

# Maine Compares Favorably With Selected States' Debt Ratios

## Moody's Medians, 2003

	Maine	Georgia	Vermont	New Hampshire	Florida
Rating	Aa2	Aaa	Aa1	Aa2	Aa2
Outlooks	Stable	Stable	Stable	Stable	Stable
2002 Debt per Capita (\$) <sup>(1)</sup>	525	802	861	485	985
Debt as a Percentage of 2002 Personal Income (%) <sup>(2)</sup>	1.8	2.8	2.9	1.4	3.5
Term of Debt	10	20	20	10 – 15	10 – 20

(1) Maine's figure based on 2003 Population.

(2) Maine's figure based on projected 2003 Personal Income.

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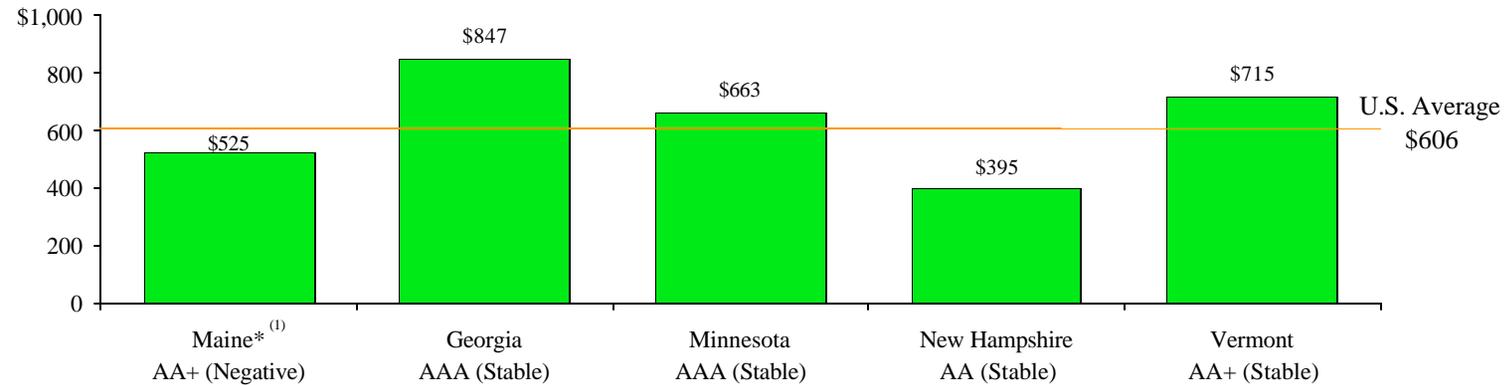
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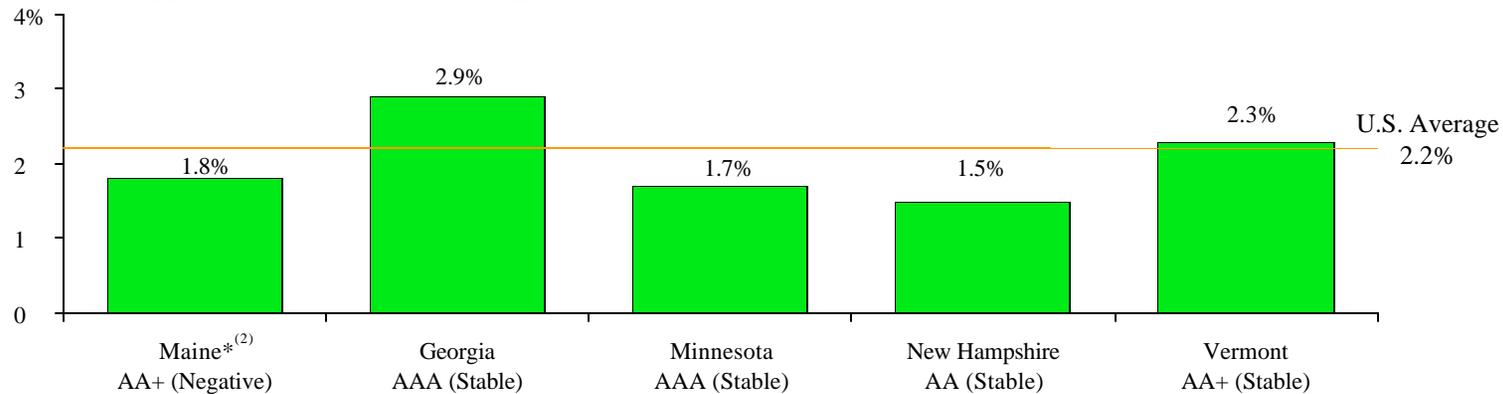
Source: Maine State Treasury, Official Statement, Bureau of Economic Analysis.

# Maine Compares Favorably With Selected States' Debt Ratios

## 2002 Net Tax-Supported Debt Per Capita



## Net Tax-Supported Debt as a Percentage of 2002 Personal Income



\* Includes General Fund, Highway Fund and Maine Governmental Facilities Authority debt, and Certificates of Participation.

(1) Based on 2003 Population.

(2) Based on 2003 Personal Income.

(3) Based on property market value.

Source: *Maine State Treasury.*

U.S. Average from 2003 Moody's Medians.

# Maine Compares Favorably With Selected States' Debt Ratios

## S&P Credit Reports

	Maine	Georgia	Minnesota	New Hampshire	Vermont
Ratings	AA+	AAA	AAA	AA	AA+
Outlooks	Negative	Stable	Stable	Stable	Stable
2002 Debt per Capita (\$) <sup>(1)</sup>	525	847	663	395	715
Debt as a Percentage of 2002 Personal Income (%) <sup>(2)</sup>	1.8	2.9	1.7	1.5	2.3
Term of Debt	10	20		10 – 15	10 – 15
	Dated:	02/25/04	01/27/04	12/04/03	02/11/04

(1) Maine's figure based on 2002 Population

(2) Maine's figure based on projected 2002 Personal Income

(3) Based on property market value.

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Debt as a Percentage of 2004 Estimated Full Value	0.66%

<b>Net Tax-Supported Debt</b>	\$ 685,440,000
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\* Preliminary, subject to change.

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*Source: Maine State Treasury, Official Statement, Bureau of Economic Analysis.*

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## **Maine has Managed the Downturn and is Tracking the Economic Recovery**

- ✍ Unemployment is falling and revenue growth is increasing.
- ✍ The State has used available resources and reduced spending to balance the Budget. We have many options still available to us.
- ✍ Institutionalized revenue forecasting and budgetary procedures have identified early fiscal concerns and have given Maine time to respond in a financially responsible manner.